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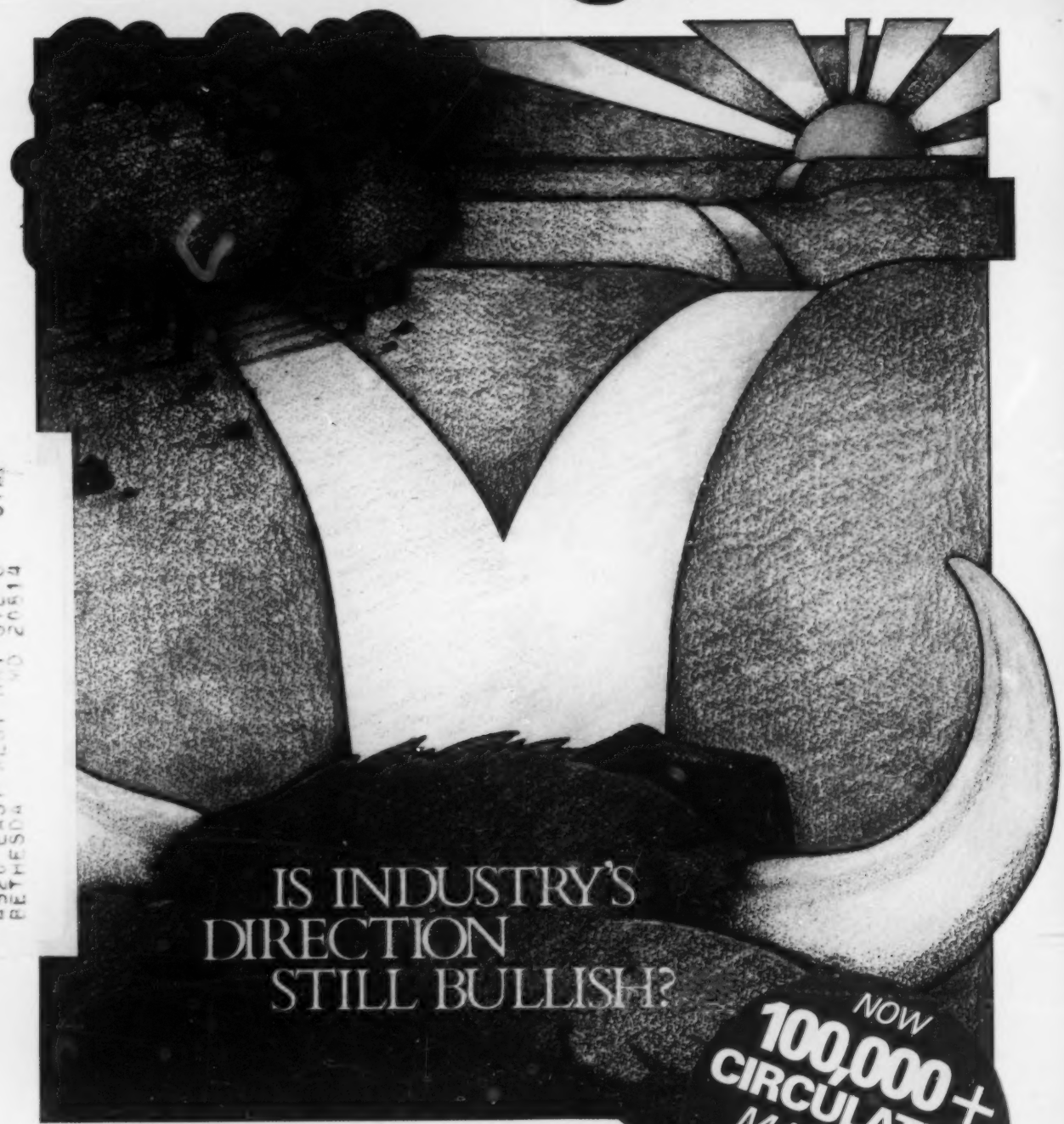

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January 1988 Vol. 32 No. 1

Special report: Forecast '88

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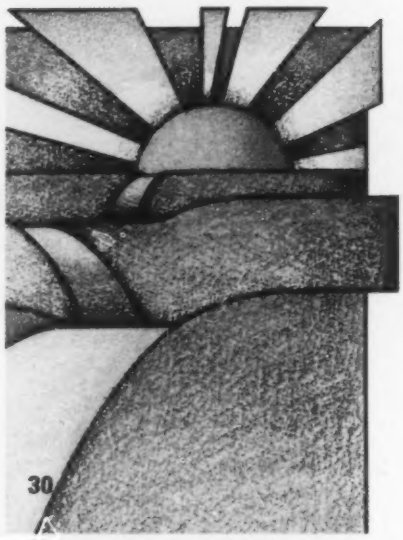

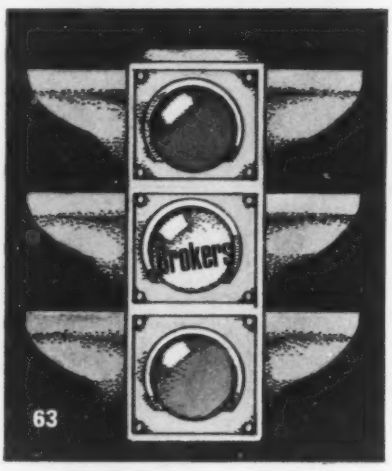

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PW PREDICTS

Robert S. Reichard, executive editor

Price inflation here, but it can be managed

By and large, industrial buyers should have enough bargaining leverage to keep price accelerations to relatively modest proportions in 1988.

If there's any doubt on this score, take a look at the varying perspective on prices contained in *PurchasingWorld's* special "Forecast '88" section which begins on page 30. Some of the findings are:

- **Purchasing:** A new *PW* survey suggests industrial procurement tags will rise about 5-6%. But another study (this one by the NAPM Business Survey Committee) puts the increase at only 3.6%.
- **Economists:** Dr. Roger Williams, *PW's* new economic consultant, and Wharton's Dr. Nariman Behravesh are also both calling for only moderate price increases. Looking at the all-inclusive GNP deflator, their projected 1988 increases are 4.0% (Williams) and 3.4% (Behravesh).
- **Top management:** Corporate executives offer perhaps the most optimistic forecast of all. They expect the prices of the goods they sell to rise by just a shade under 3%.
- **Econometric:** The little black boxes which spew out forecasts based on hundreds of complex mathematical equations tell much the same story. *PW's* rundown of three top models points to average gains of only 3.6% as far as the GNP deflator is concerned—and only a bit larger 3.7% gain for producer goods, including farm.

And what's true of averages is true of most individual sectors. Thus DRI, which has supplied *PW* with detailed forecasts of some 25 product lines, shows not one single item advancing by much more than 6%. This across-the-board moderation is also confirmed by the top managers' report from DRI. Not one of the 17 manufacturing categories studied is expected to sport more than a 5% or so price increase.

Some rise in the rate of price increases is almost inevitable for three basic reasons: rising labor costs; closer-to-capacity operations, and the weaker dollar. While operating rates are rising, they are still only in the 81% range—below the 85% level that usually signals the beginning of endemic shortages.

As for labor costs, the expected 1988 advance for non-farm production workers should be only in the order of 3.5%; just about one percentage point above 1987.

There are some other moderating factors as well. Some key manufacturing sectors remain in the doldrums. The auto and machine tool sectors are still stuck with over-capacity and strong foreign competition.

Foreign suppliers are still in the picture despite the lower dollar. This serves as a safety valve for availability and as insurance against any price spiral.

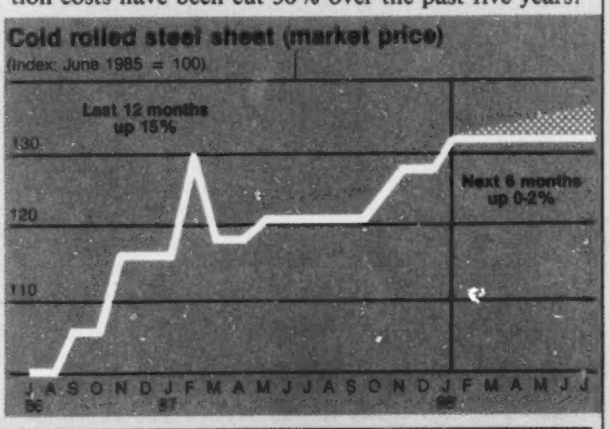
Steel supply to loosen in 1988

CURRENT SITUATION: It's been a hectic year for steel buyers. Not only have lead times stretched but prices have moved up—certainly more than indicated by Uncle Sam's overall index. PW's estimated transaction price increase for cold-rolled sheet is up 15% over 1987. Nor is the advance running out of steam—with recent hikes noted for oil country, tubular goods, stainless bar, stainless flat-rolled products, electrical steels, selected structurals, and carbon plate.

DEMAND: Some 73 million tons of domestic steel probably cleared the market over the past year—up nearly three million tons from 1986. But some modest fall-off is likely over the new year—with total shipments hard put to top the 70 million ton range. **The basic reason: Weakness in autos and housing.** This should more than offset projected increases in the machinery, oil equipment and rail sectors.

SUPPLY: Current tightness should give way to an easier situation by mid-1988 because of lower demand, the resolution of production problems in U.S. mills, and the end of inventory accumulation. Imports can also be expected to supplement the supply—with more than 18.5 million tons expected in 1988—not much under this past year's 20 million tons.

PRICE OUTLOOK: While further scattered increases are likely, the worst of the runup seems over. Reason: The anticipated leveling off or decline in demand. Orders for cold-rolled sheet have already eased. There are exceptions like plate which could remain tight. But market factors suggest little more than a 2% increase in overall steel mill product tags through mid-year. **Another factor behind this moderation: Improved mill profit statements.** Recent price hikes have put most firms back into the black—with an assist from the fact that production costs have been cut 30% over the past five years.


Cold rolled steel sheet (market price)
(Index: June 1985 = 100)
Last 12 months up 15%
Next 6 months up 0-2%
130
120
110
J A S O N D J F M A M J J A S O N D J F M A M J J
86
87
88

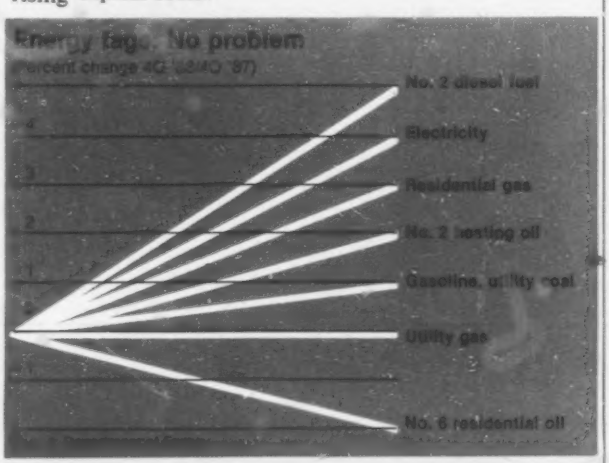
Energy prices

Figure on little or no significant energy inflation over the new year. That's the good news from Department of Energy analysts who base their projections on $18.50 /bbl crude petroleum over the next 12 months.

Less-than-sensational demand is also likely to put a lid on any increases. Oil use over 1988 is expected to remain relatively unchanged (at 16.5 million bbl/day). And even when other forms of energy (coal, gas, and electricity) are added, the average overall 1988 consumption gain is put at only 1.6%.

As for individual product lines, the near-term outlook is shaping up like this:

- Gasoline: The average price (all grades and services) should be near 99¢/gal over the new year—with pump tags unlikely to go over $1.02/gal even during the strong summer driving season.
- Heating oil: Little change is seen at the wholesale level where quotes should average in the 52-54¢/gal range. But retail prices, more sensitive to seasonal factors, could go as high as 85¢/gal during the current (first) quarter.
- Residual oil: Plan on a relatively flat $18/bbl average for overall 1988—pretty much unchanged from this past year's $17.80/bbl estimate. Demand could again edge lower—falling another 2.5% in 1988.
- Natural gas: Prices will be up about 3%. Demand, however, could advance about 2.5%, reversing a 1987 drop of the same magnitude as industrial consumption moves up.
- Coal: Excess capacity will hold the price advance to about 1%. Demand will be up 1.2%—but somewhat higher consumption gains are seen for coking and general industry grades.
- Electricity: Residential rates will rise slightly in excess of 3% (to an average of 8.04¢/kwh). Factors behind this increase: A 2% increase in fossil fuel tags and rising capital costs.



Copper

Prices could be about to level off after the near doubling of the past year. True, demand is still good and producer inventories are quite low (especially for high grade material). Best bet: A back and filling around current levels until around midyear. After that, some erosion from current sky-high levels seems likely as more production from Chile, the Phillipines, Mexico, and the U.S. hits the market. On the latter score, the Bingham, UT mine will see its first year of full production—and Phelps Dodge will produce an additional 80 million tons as its solvent extraction electrowinning expansion program continues.

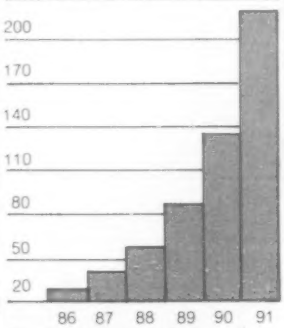
Ethylene

First quarter contract prices are moving up into the low 20s range—up as much as 3.5¢/lb from late 1987 readings. But the feeling is that the runup, which has seen tags rise from the 13.5¢/lb low of July, may soon run out of steam—especially if crude oil prices edge lower. In fact, one big buyer thinks that producers are posting the new round of advances to insure their having enough base price from which to discount when the market softens later on this year.

Aluminum

The light metal is taking a breather after zooming up by more than 30¢/lb over the past year—from just over 50¢/lb to the current 80¢/lb plus level. Producer inventories are at their lowest levels in 13 years. But any further significant rises seem doubtful. Some softness could develop as the year wears on and more capacity comes on stream. Demand gains won't be quite as spectacular as they've been. The domestic industry, for example, is now talking in terms of a 1-2% shipment increase over the new year.

EDI service sales
(Millions of $)



Source: Link Resources Corp

Electronic data interchange

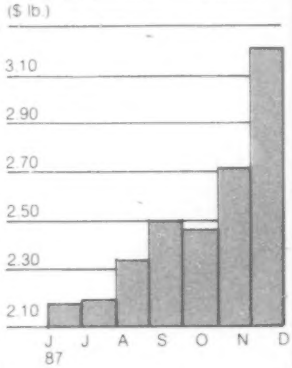
EDI (the transmission of information between computers using highly standardized electronic versions of common business forms) continues its rapid (near 50% a year) growth pace. A new projection by Link Resources Corp. of New York sees revenue for these services rising from only $39 million last year to over $220 million by 1991. The number of using firms is expected to grow at the same pace. More significant, EDI, which was initially developed for transportation, is now spreading rapidly to heavy manufacturing. In any event, producers mov-

ing to JIT delivery systems are increasingly using EDI as the electronic lifeline to tie their systems together.

Polyethylene

Recently posted increases have been holding up fairly well—with both low- and high-density grades commanding anywhere from 35-40¢/lb. And more early 1988 boosts have already been announced. These January increases, ranging as high as 5¢/lb , mean that it should be quite difficult to find very much material for under 40¢/lb this winter. Behind all this bullishness: continuing strong demand and tight supplies. In the high-density sector, for example, a 6% consumption gain over the new year should keep operating rates near the 100% level.

Nickel dealer cathode
($ lb.)



Nickel

Markets have turned buoyant, with dealer cathode now commanding over $3/lb—almost double the $1.68/lb low of the past year. Reason: New supplies over the past 12 months fell about 50 million pounds short of the estimated 1.35 billion pound free-world demand level. High operating rates, put at nearly 91% for the new year, have to be regarded as still another bullish factor. As such, prices are expected to remain firm to higher through spring. But beyond that some leveling off is possible—for overall 1988 demand is not expected to rise very much

Phosphates

A dramatic turnaround is prompting the industry to talk in terms of firmer prices and tighter inventories through the first half of 1988. Tags have already moved up $40-50/ton since last year at this time. And as for inventories, they are currently put at only 900,000 lb —down about 10% from last year. Upshot: Diammonium phosphate (DAP), the industry's principal product, now fetches $173/short ton (U.S. Gulf barge). And more increases are in the works. Export tags are even higher—running in the $185-190/metric ton range (up sharply from the $125-130/ton levels of last year).

Polystyrene

The industry is riding high after a year of record sales and rising prices. As of latest report, for example, the general purpose/crystal grade was fetching near 55¢/lb. That compares to the only 39¢/lb quote of just one year ago. And prices are likely to remain high—as a tight supply keeps tags of styrene monomer up in the high 40¢/lb range. New polymer capacity coming on

Paper demand and prices increase

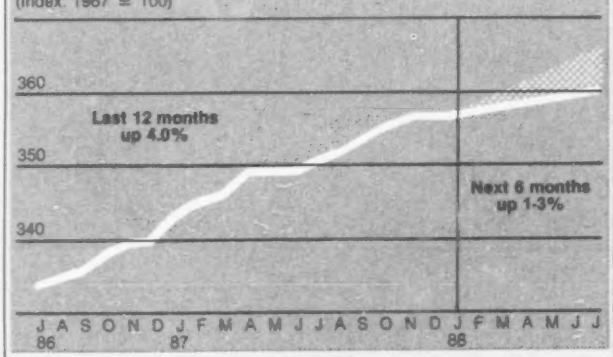
CURRENT SITUATION: Strong demand and rising prices have been the case for over a year now. On the price front, recent boosts have hit bleached board, linerboard, corrugated boxes, kraft paper, grocery bags and sacks, printing and writing paper, newsprint, and pulp. Demand has been equally strong—**pushing the 1987 paper and board production total up to over 73.7 million tons.** That's a gain of nearly 4%—on top of 1986's 5.6% advance.

DEMAND: Assume a 2-2.5% real GNP advance in 1988—and paper and board production could be up another 2%. Biggest increases are seen for uncoated groundwood where production could rise by about 5-6%. Also faring well will be newsprint (up 4%) and coated papers (up 3-4%). Linerboard should approximate the overall average 2% advance.

SUPPLY: Things remain snug in most sectors. Producers say they have enough new capacity on the drawing boards to prevent any real pinch. Thus these projected industry additions for 1988: newsprint (1.2%), uncoated groundwood (6.2%), coated papers (3.7%), uncoated free sheet (2.3%), unbleached kraft linerboard (2.1%), and solid bleached board (2.0%). These suggest the following 1988 operating rates: newsprint (100%), uncoated groundwood (88%), coated papers (92%), uncoated free sheet (93%), unbleached kraft linerboard (99%), and solid bleached board (95%).

PRICE OUTLOOK: Given the above market scenario, more increases seem inevitable. Over the next few months increases are expected for linerboard, newsprint, tissue papers, and many fine papers. But for the most part these boosts should be relatively modest. Then, too, costs are rising only modestly—and some of this is being offset by impressive productivity gains (5% in 1987). PW equations suggest about **a 1-3% increase in the all-industry average by midyear.**

Paper product prices
(Index: 1967 = 100)



Market outlook for industrial robots

The recent lull in purchases of industrial robots seems over. A study by the Freedonia Group (Cleveland), for example, sees sales rising a strong 22.7% a year through the 1986-1991 period.

The new report puts gains in real or physical volume at 18.1% a year. Superimpose this on the dollar figure, and you end up with a 4.5% annual price advance.

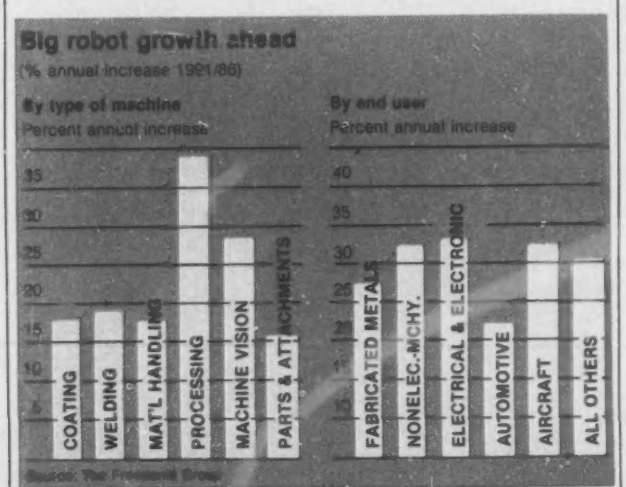
Much of the upward demand impetus is based on an aggressive commitment by U.S. manufacturing industries to adopt and upgrade factory automation techniques. Then, too, robot manufacturers are appealing to non-traditional users—namely the electronics, aircraft, textile, and other industries.

As such, the motor vehicle industry, while remaining the largest end user of these robots, should claim a somewhat smaller share of the total market in the years ahead (25% in 1991 versus 34% in 1986). The auto robot market, however, will benefit from direct investment by Japanese car producers in U.S. manufacturing facilities.

Viewed from a type of equipment vantage point, the biggest percentage gains over the next few years will be in the processing robot and machine vision sectors. The former (including parts finishing, assembly, and inspection) presents tremendous potential for productivity gains and should grow at nearly a 40% annual rate.

The study also points out that imports (mostly from Japan, Sweden, West Germany and France) account for 35% of the U.S. market. The reasons for this is lower prices plus licensing pacts and U.S. marketing subsidiaries that further broaden the distribution of foreign-built robots.

Combine the above with a dip in exports, and the nation had a $125 million robot trade deficit last year. But on a rosier note, this could fall to $100 million by 1991.



stream over the new year will still lag domestic consumption increases. This, in turn, suggests another increase in polystyrene operating rates to near 89%.

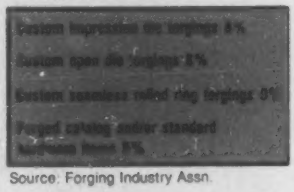
Zinc

The plating and alloying metal is holding up quite well, despite the end of the strike that plagued last years output. Prices have actually moved up (to near 45¢/lb) in recent weeks—prodded by relatively snug supplies and increased buying by the Chinese. Meantime, consumption also remains moderately upbeat—with global chewup put at 6.85 million tons last year—up 2.5% from 1986. As for the new year, most signs suggest little more than fractional demand gains—with prices expected to move in a rather narrow 5¢/lb range. That's a lot different from the dramatic swings of 1987.

Forgings

This critical U.S. industry, bolstered by a good 1987, is looking forward to an even better 1988. Some of the dollar order gains being projected: 1) custom impression die forgings (up 8% to $2.7 billion); 2) custom open die forgings (also up 8% to $675 million); 3) custom seamless rolled forgings (level after a big 8% gain this past year), and 4) forged catalog and/or standard hardware orders (up 5%). Another plus: More business is returning from offshore because of dollar softness. Then, too, there have been some delivery and quality problems with these imported items.

1988 forging orders
% increase



Source: Forging Industry Assn.

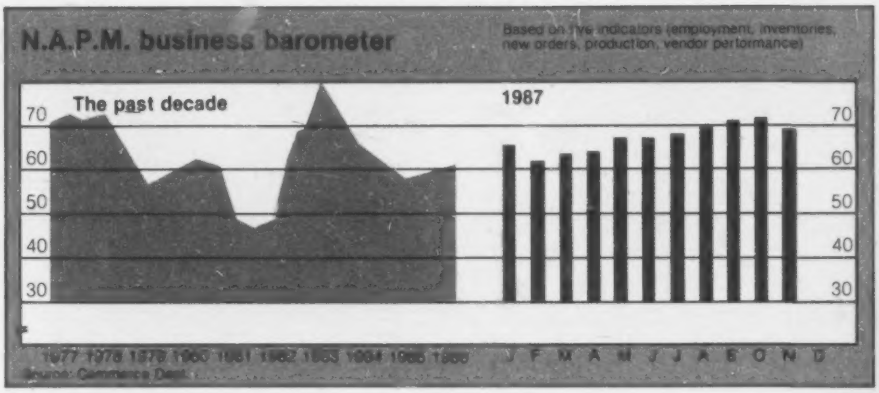
Lead

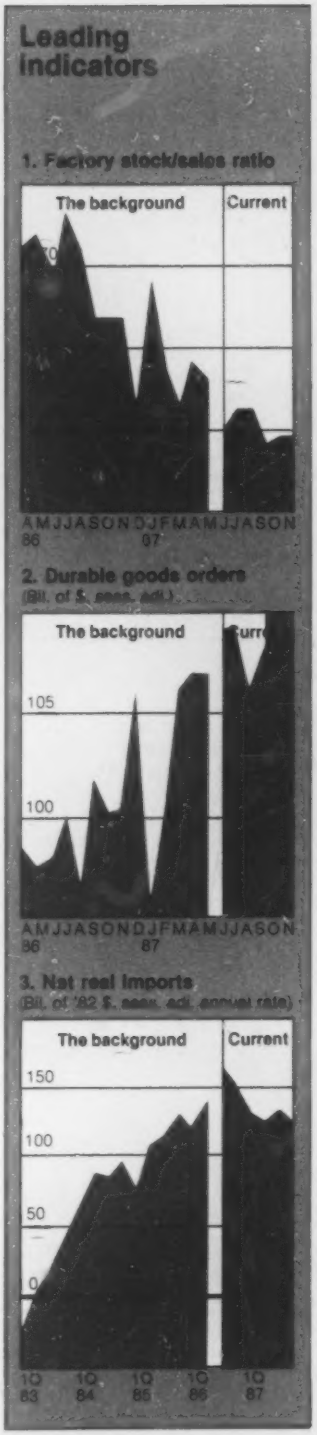
A modest price decline (2-3¢/lb) still seems a better-than-even bet over the next few months. One sign of weakness: some metal is moving well under official producer lists. Also prices are significantly lower in Europe. Then there's the coming end of the batterymaker lead buying season. Finally, a look at overall 1988 projections leaves a bit to be desired. Free-world use is expected to rise only about 1-2% this year, not nearly enough to offset the increasing supplies that should be coming on the market.

Sulfuric acid

Improved market balance (brought about by a combination of plant closings and record fertilizer exports) is making for somewhat firmer prices—especially in Midwestern and Gulf Coast areas. Generally speaking, quotes have moved up about $5/ton and are expected to hold at the new higher levels. Nor is that the end of the line—an added demand assist comes from the copper industry's expanding use of smelter acid for mineral leaching.

BUSINESS DATATRAK





KEY ECONOMIC TRENDS

First quarter smooth sailing

Whether or not you buy the rosy economic projections contained in *PW*'s special "Forecast '88" section, one thing is clear: There is not going to be a business downturn soon.

The evidence supporting this upbeat near-term outlook is pretty convincing. For one thing, the NAPM Business Barometer (see accompanying graphs) has been running close to 10 points above the neutral 50 mark for seven straight months.

Another NAPM report shows that 47% of its Business Survey Committee membership now expect 1Q 1988 to top late 1987 levels—more than four times the small 11% who feel some deterioration may be in order.

Many forecasters who slashed their estimates for 1988 growth have been nudging them up again in recent weeks. A new survey of 51 economists shows them upping their 1988 numbers after a sharp downward revision following the stock market crash.

Consumers have not panicked. Sure, sales are under earlier projections. People have apparently decided to base their spending on income rather than assets. Since income is holding up, so have sales.

Sure, sales of luxury items like fur, jewelry, and expensive cars have been hurt. But these aren't the items that count that much when GNP figures are totaled.

Moreover, there's still other news confirming that some life remains in the now more than six-year-old business upturn. For one, the critical factory stock/sales ratio is now at an all-time low.

The latest reading here (1.59) is some 5% under year-earlier levels—a pretty good indication that factory managers are following through on their "keep'em lean" strategy. If nothing else, it means that as new orders are received, they will quickly be translated into new production.

And these new orders do seem to be coming in at a fairly good clip. At last report, durable factory billings were up over the $110 billion mark for the first time ever. Since sales rose at a slower pace, the backlog of unfilled orders also advanced.

Still another measure closely watched as a barometer of the economy's strength: new orders for nondefense capital goods. This yardstick advanced a strong 1.3% over the latest reported month.

Perhaps the most encouraging near-term sign of all has been the improvement in the U.S. balance of trade. But look at the trade deficit in real terms, and there has been significant improvement. As the last chart on the right indicates, the red ink

number for 4Q 1987 dropped to $125 billion (in 1982 dollars)—some 18% under year-earlier readings.

Point to keep in mind: This represents a lot of new business that was previously earmarked for overseas producers. More important, because of the lagged effect here—plus the expectation of more dollar declines—this "trade" factor is almost sure to improve further in early 1988.

This, in turn, should keep employment at current levels or even push it up a bit.

What's ahead on the 1988 collective bargaining front

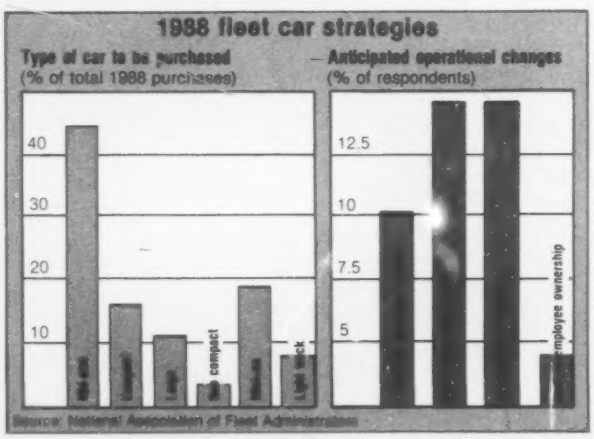
Month	Principal industries	Agreement expirations and/or scheduled wage reopenings.	
		Number of pacts	Workers covered (000)
January	Bituminous coal, oil refining	34	191
February	Food stores, food production	21	65
March	State and local government, trucking	54	497
April	Construction, rubber, real estate management	67	201
May	Construction, clothing manufacturers	94	396
June	State and local government, railroads, construction	230	1,165
July	State and local government, motion picture production	42	120
August	Clothing, local government, electrical equipment	46	248
September	Automobile manufacturers, state and local government, food stores	47	203
November	Transportation equipment, electrical equipment, food stores	24	77
December	Local government	53	161
Total		732	3,380

1988 fleet car strategies

Some national trends worth considering before finalizing 1988 fleet car strategies—based on a new National Association of Fleet Administrators survey of 319 U.S. fleets.

- **Type of car:** Mid-size vehicles are still by far the most popular—and are expected to account for some 44% of all 1988 purchases. The remainder: light trucks (19%), compacts (16%), large cars (11%), minivans (7%), and subcompacts (3%).
- **Ownership:** Some 10% of the respondents say they are likely to lease vehicles that were previously purchased. Another 3% plan to divest most of their fleet and switch to employee ownership.
- **Drivers choice:** More than half those queried will give drivers choice of make. And one third offer model options. But only 11% offer engine-type choice.
- **Imports:** No contest here as less than 1% plan to buy cars built outside North America.
- **Major purchase considerations (in descending order of importance):** Initial cost, serviceability, economy of operation, depreciation/resale, driver satisfaction, administration ease, company prestige. One change from last year: The shift of second and fourth places—with serviceability moving up the ladder at the expense of depreciation/resale.

Also worth noting: of those contemplating operational changes some 14% say they will reduce the number of vehicles in their fleet. And an equal percentage contemplate keeping their cars longer as well as putting more mileage on them before trade-ins.



Labor

It's going to be a fairly busy year on the collective bargaining front. Labor unions don't look to be all that belligerent, but the fact that major contracts involving 3.4 million workers are up for negotiation does seem to suggest that there could be at least a few problems.

Adding to the concern is all the tough talk now coming from management. Specifically, some 72% of those executives queried by the Bureau of National Affairs say they'll try to hold first year increases to 2.4%—adding that if strikes do occur, they may well decide to use non-union workers.

Whatever management's attitude, the sheer number of workers involved (38% of all union workers work in the private sector) would seem to indicate close monitoring. In any case, note these manufacturing sectors with large numbers of workers under contracts slated for 1988 renewal: apparel (230,000 workers), transportation equipment (160,000), and electrical machinery (155,000).

Still other manufacturing industries with big negotiations ahead include food (62,000), lumber and wood products (54,000), petroleum refining (35,000), rubber and plastics (48,000), and nonelectric machinery (43,000).

Private non-manufacturing areas scheduled for contract talks include mining, oil, and gas production (105,000), construction (425,000), railroads (317,000), trucking (195,000), and utilities (90,000).

Nor is there any particular time of year to be extra concerned about. As the accompanying table shows, virtually every month faces busy talk schedules. March and June should be particularly important, since major transportation contracts expire during those months.

This month's breakdown

	Latest level (November)	% change from: Month ago	Year ago
Bearings	358.5	0.1	0.7
Bolts, nuts, etc.	279.1	−0.2	0.3
Chemicals, inorganic	294.8	−0.2	0.3
Chemicals, organic	363.8	1.3	12.2
Concrete products	326.7	0.2	0.7
Corrugated cartons	NA	NA	NA
Cutting tools, small	293.6	0.1	0.4
Electric lamps (bulbs)	352.4	0.2	1.6
Electronic components	203.4	0.2	0.2
Fans and blowers	371.5	0.9	0.9
Foundry and forge products	368.0	0.3	1.7
Fuel oil (residual)	623.9	1.8	38.4
Furniture, commercial	329.6	0.1	2.5
Gasoline	406.5	1.0	30.5
Glass, flat	240.6	−0.2	3.2
Glass containers	401.3	0.0	0.1
Gypsum products	305.6	−0.1	−12.9
Hand tools	398.2	0.0	3.2
Hand tools, power driven	242.5	0.2	1.0
Industrial furnaces	403.5	−0.1	1.9
Integrating and measuring instruments	242.4	0.6	2.0
Internal combustion engines	360.0	0.2	1.8
Lubricating oil	350.1	0.3	−0.2
Lumber millwork	334.2	0.0	4.8
Material handling equipment	300.7	0.1	1.2
Metal containers	359.9	0.0	−0.7
Metal mill shapes (nonferrous)	345.1	3.0	15.7
Metal tanks	306.5	−0.1	2.5
Motors and generators	361.9	0.0	2.7
Motor trucks	330.7	−0.6	0.4
Office and store equipment	159.5	−0.3	2.8
Paperboard	311.3	0.2	11.9
Paper boxes and shipping containers	296.8	0.8	8.4
Paper office supplies	245.7	0.4	1.8
Paint	285.9	0.3	1.2
Plastic resins	338.1	0.0	14.6
Precision measuring tools	277.7	0.0	3.2
Pumps and compressors	367.0	0.3	0.9
Refractories	374.6	0.2	1.7
Rubber belts and belting	330.2	0.4	−1.6
Scales and balances	235.8	0.3	1.2
Steel products	367.0	0.5	5.2
Switchgear	291.2	0.0	1.9
Textiles, synthetic fibers	150.8	0.3	1.5
Textiles, gray fabrics	160.9	0.5	7.3
Tires and tubes	232.8	0.0	0.6
Transformers and power regulators	240.6	0.1	1.4
Welding equipment	307.5	0.4	1.8
Wire and cable	228.2	2.3	11.2

CURRENT PRICES

Gradual is the operative word

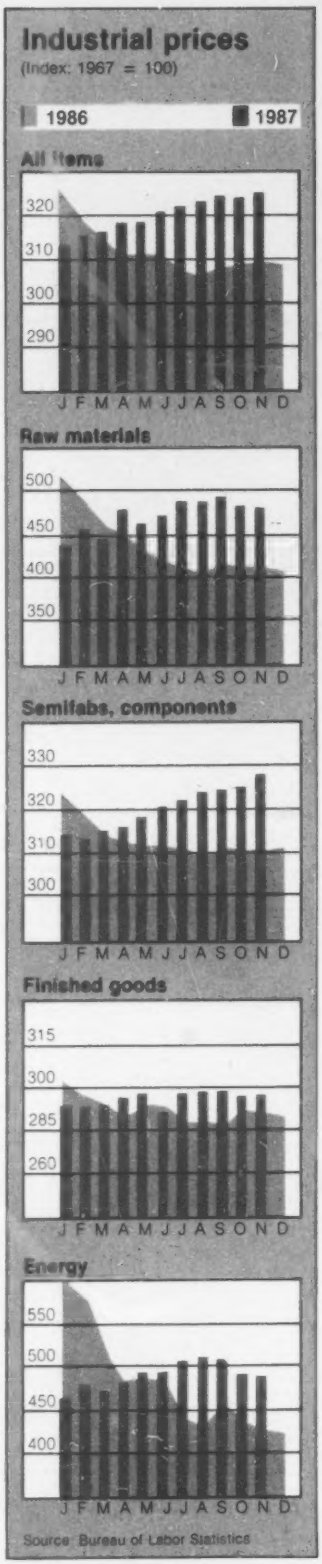
The modest rise in industrial producer prices is still continuing. Once again the major culprits are basic raw materials such as metals, paper, and chemicals. Some fairly substantial advances in these areas more than offset further scattered softness in the energy sector.

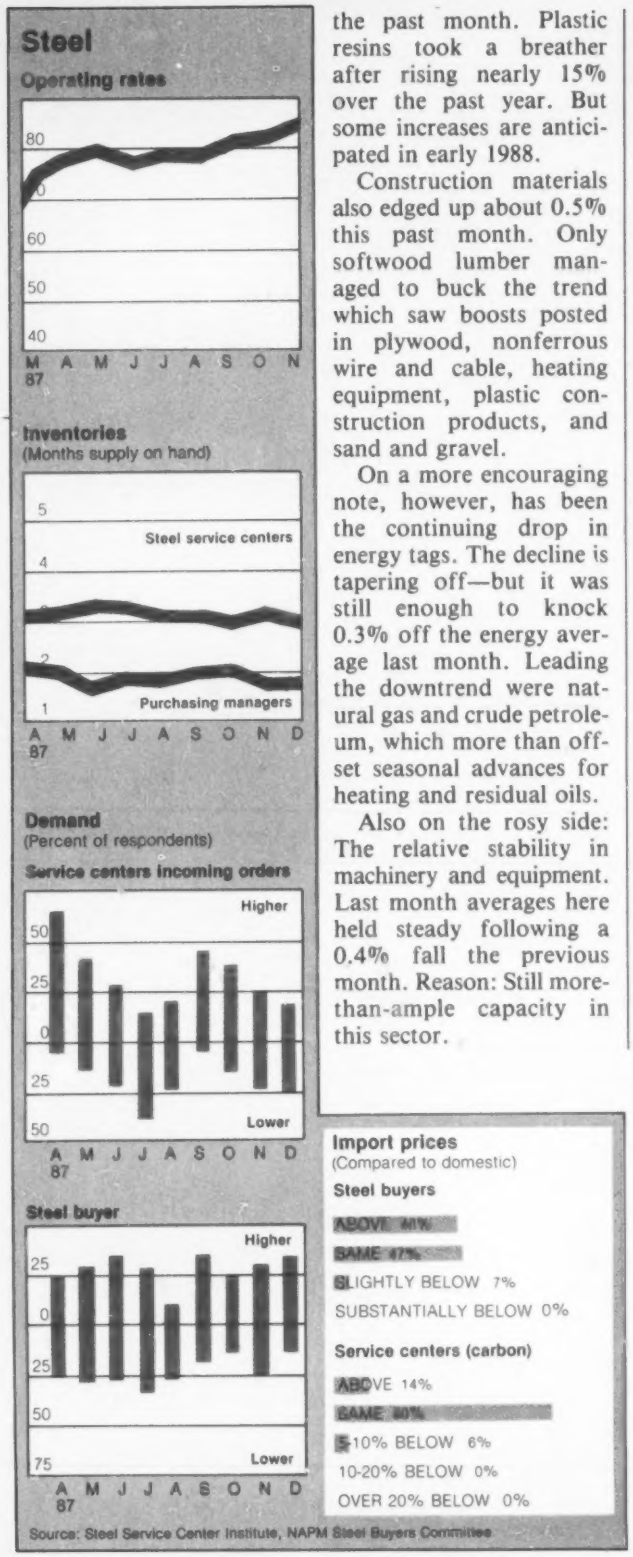
Prices over the past month averaged about 0.2% above the previous 30-day period—the equivalent of about a 2.5% annual rate of rise.

Coming back to individual product lines, nonferrous metals—as in the past few months—continue to be the major culprit, as hefty increases in copper and copper-based products spearheaded a significant jump. Also up over the month were steel mill products and most metal scrap. Aluminum has apparently been leveling off—albeit at very high levels.

Paper, too, continues to move up the price ladder on a fairly broad front—though the increases in recent weeks have been smaller than those posted this past fall. Biggest increases over the past month were in the fine paper area—though from a year-to-year perspective the heftiest hike has been in paperboard which now runs close to 12% ahead of last January.

Chemicals are also strong—with organics moving up a substantial 1.3% over





the past month. Plastic resins took a breather after rising nearly 15% over the past year. But some increases are anticipated in early 1988.

Construction materials also edged up about 0.5% this past month. Only softwood lumber managed to buck the trend which saw boosts posted in plywood, nonferrous wire and cable, heating equipment, plastic construction products, and sand and gravel.

On a more encouraging note, however, has been the continuing drop in energy tags. The decline is tapering off—but it was still enough to knock 0.3% off the energy average last month. Leading the downtrend were natural gas and crude petroleum, which more than offset seasonal advances for heating and residual oils.

Also on the rosy side: The relative stability in machinery and equipment. Last month averages here held steady following a 0.4% fall the previous month. Reason: Still more-than-ample capacity in this sector.

STEEL SCENE

The big worry list

Tight as a drum—that's the only way to describe the current steel supply situation. Both users and service centers are virtually unanimous on this point.

For the first time in many years, every single product line monitored by the NAPM steel buyer committee is on their "worry" list. As over the past few months, the really big concerns seem to be centered in plate, hot-rolled, cold-rolled, and coated sheet.

Another sign of the times: Only about one in 10 of these same metal buyers now looks forward to problem-free steel procurement in the six months immediately ahead. That's the lowest such percentage in years.

Talks with distributors suggest a similar picture. Steel Service Center Institute (SSCI) President Andrew Sharkey sums it up as follows: "Domestic mills have allocated most sheet and plate production, while the minimills have depleted finished floor stocks of merchant bar and structural, and are generally producing from full rolling schedules of 8-10-week cycles. These circumstances have caused service centers to put in a great deal of purchasing overtime in order to maintain balanced inventories."

As for future demand, the picture is a bit more mixed. Thirty-four percent of queried buyers plan to increase their receipts of the metal over the next few months—more than double the 14% who contemplate smaller buys.

But this has to be contrasted with a somewhat more cautious forecast made by SSCI members. The past month, for example, shows that anticipated declines in orders now top anticipated gains, the first time this has happened since July. True, one month doesn't make a trend, but this is something which will bear watching.

Auto markets have become weaker. And it remains to be seen whether the machinery, oil, appliance, and inventory building sectors can pick up all the slack.

Some inventory gains seem likely—for supplies are low—down under a three-month level in the case of service centers. And replies indicate that now for the first time in years those who feel stocks need some buildup outnumber those who feel further cutbacks may be in order.

Steel user holdings are also way down in terms of current production requirements. Those now attempting to build up inventory levels (21%) outnumber the 14% who see some paring.

Still another area getting a lot of attention these days is prices. Several boosts are slated for this month—and the feeling is that overall costs will continue to climb.

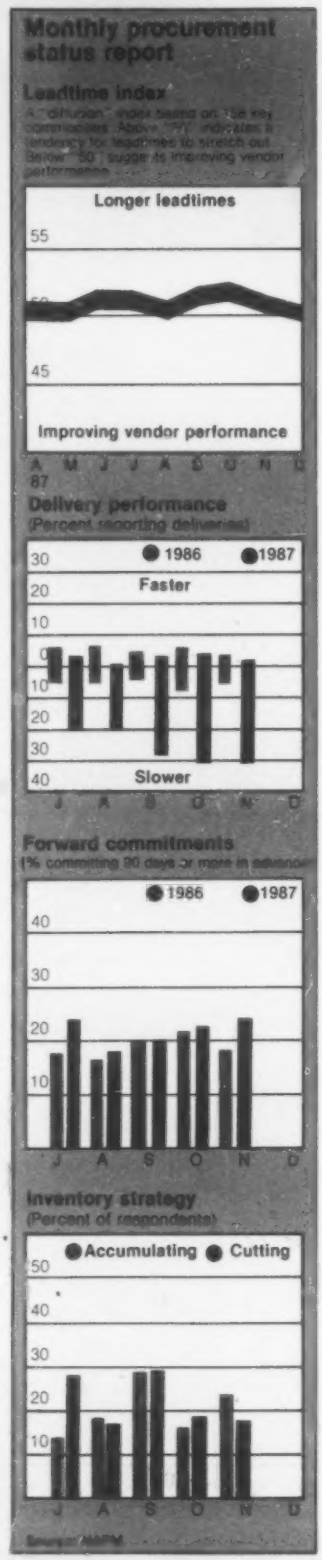
On the service center front, a growing number of SSCI members believe future replacement costs

will be higher. Of all members polled, 88% now say these costs will be up over the next six months—with 39% putting the increase in excess of 5%.

This 39% figure is the highest since these statistics first began to be collected a few years back. In any event, it's all a far cry from a year ago when only 9% were anticipating such big boosts.

One reason for these price advances could be the fact that import competition has almost completely dried up. Not one service center reports import price advantages of 10% or more in the carbon and stainless areas. Conversely, 94% of those buying carbon steel and 91% of those buying stainless now report importers quoting the same or higher-than-domestic prices.

And as might be expected, steel buyers are experiencing a similar situation. Nearly all note import quotes running at or above domestic mill levels—in marked contrast to a year ago, when 37% were still getting some kind of overseas price break.



PROCUREMENT STATUS

And only a year ago...

What a difference a year makes.

Last January, purchasing managers were pretty confident about deliveries, supplies, and their ability to keep prices, terms of sale, and other procurement variables under control.

Today things are different. No panic, but lead times are out—particularly in steel, paper, and plastic resins. And the typical PM's bargaining leverage is nowhere near where it was in early 1987.

The numbers from *PW's* monthly procurement report tell the story:

- **Lead times:** *PW's* exclusive lead time index registered another 51 last month—the eighth time in 10 months that the stretchouts outnumbered those coming in.
- **Speed of delivery:** Members of the NAPM business survey committee reporting slowdowns have been outnumbering those getting speedier deliveries for 14 consecutive months. The net differences—negative 29 (as the 31% noting slowdowns overwhelmed the 2% with speedups)—is the largest in over 3½ years.
- **Forward commitments:** PM's committing 90 days or more in advance for production materials have jumped to 25% of surveyed buyers—the highest level in years. Those buying 30 days or less in advance have dropped to 50%—off from 58% two months earlier.
- **Shortages:** The NAPM list has become large—in contrast to the one or two items appearing as late as last winter. Current items on the "worry" list include aluminum (particularly ingot), steel plate, steel pipe, hot- and cold-rolled steel sheets and coil, steel scrap, polypropylene, caustic soda, and titanium dioxide.

The number of buyers reporting price increases is now quite high—with some 56% of NAPM survey committee members being hit with boosts. That dwarfs the 1% who note some reductions.

The figures over the past month or so seem to be plateauing. Several PMs feel industries which have been raising prices (notably paper, metals, and plastics) are finally catching up with their costs—obviating the need for further increases.

Leadtimes and availability

Chicago: MRO items are expected to hold, but steel remains tight—with ordering impossible without a mill position. Some extensions in coated paper (to 6-10 weeks). Ditto, shrink film bags (6-8). Softwood plywood and framing have come in to 3-4 weeks.

Cleveland: Alloying materials remain available on demand. Ditto, pulp. But plastic compounds are out fractionally (to 2-3 weeks). Other typical leads: Cold-finish aluminum (8), coil coating paint (3), maintenance paint (2).

Houston: Some modest easing is noted in the paper area—with these new lower leads: corrugated (2), kraft (1), and 4-color process printing (3). But extended waits continue for carbon steel tubing (16-18), alloy steel tubing (18-20), and galvanized steel coils (18).

Los Angeles: No real problems in metals, with leads holding at these weekly levels: Galvanized steel (12-14), aluminum tubing (4-6), grey

iron castings (5-7), brass castings (8-10), stainless coil (14-16). No stretchouts in electronics either.

Philadelphia: Several steel items moved out about 2 weeks to the following: Stainless hex bar (14-16) stainless round bar (12-14), carbon hex bar (10-12), carbon round bar (8-10), and stainless round coil (14). Coming in to new waits are standard taps (2-4).

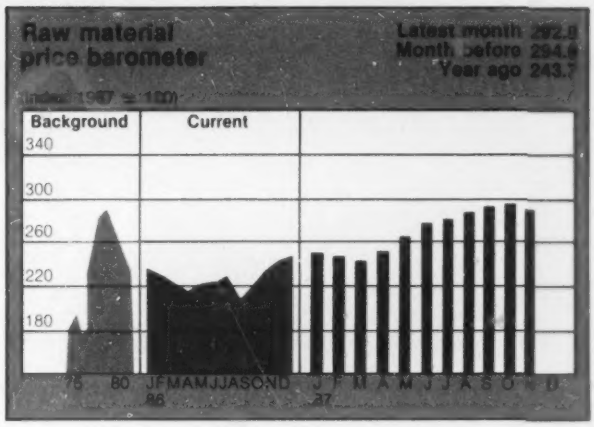
Pittsburgh: Relatively minor changes leave weekly leads as follows: Copper mill products (6), tin (2), lead metal (3), zinc (4), paint (4-5), polyethylene (5), polyvinyl chloride (6) steel strapping (2-3), steel drums (1), and corrugated boxes (3-4).

Leadtimes (in weeks)

	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4	4	4
C-R Sheet (Chgo)	11	11	11
Plate (Phil)	10	10	10
Plate (Chgo)	13½	13½	13½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	5½	5½	5½
H-R Bars (Chgo)	11	11	11
Cold-Drawn Bars (Phil)	9	5½	5½
Galvanized (LA)	13	13	13
Galvanized (Chgo)	12	12	12
Structurals (Chgo)	5	5	5
Structurals (Hous)	13	13	11
Tubing (Phil)	8½	8½	5½
Grey Iron Castings (LA)	6	6	7
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	17	17	17
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	14	14	16
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	4½	4½	4½
Motors (Phil)	12	12	9
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	9	9	9
Relays (Chgo)	15	15	15
Resistors (Chgo)	9	9	9
Resistors, Wirebound (Phil)	5	5	5
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	2½	2½	2½
Plywood (Chgo)	3½	5	3
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	2	2	2
Softwood (Phil)	⅓	⅓	⅓
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	4
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	2	2	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	2½	2½	2½
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	4	4	2
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1

	Now	Month ago	Six months ago
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	2½	2½	2½
Cartons, Corrugated (Hous)	1	2	2
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	7	6	6
Shrink Film (Clev)	1	1	1
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	1	1	1
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	½	½	½
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NONFERROUS			
Aluminum Coil (Chgo)	22	22	19
Aluminum Plate (Chgo)	14	14	14
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	22	22	19
Brass Castings (LA)	9	9	9
Brass Rods (Chgo)	7½	7½	7½
Brass Sheet (Chgo)	11	11	11
Brass Tube (Chgo)	8½	8½	13
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	4
Copper Tube (LA)	7	7	7
Copper Tube (Phil)	5½	5½	5½
Lead (Pgh)	3	3	2
Magnesium (Pgh)	2	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	2	2	2
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	4	4	3
MISCELLANEOUS			
Bearings, Domestic (Phil)	2	2	2
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	50	50	50
Compressors, Reciprocating (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	8	8	8
Fasteners, Std. (Phil)	3	3	3
Heat Exchangers, Carbon-alloy Steel (Hous)	22	22	21
Heat Exchangers, Hi-pressure (Hous)	25	25	24
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	1½	1½	1½
Pumps (Hous)	21	21	21
Pumps (LA)	11½	11½	11
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	9	9	4
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	16.50	16.50	23.95
Steel, bars, Pitts., cwt.	16.50	16.50	23.95
Steel, bars, C.R., Pitts., cwt.	19.45	19.45	31.00
Steel, plates, Pitts., cwt.	19.75	19.75	18.25
Steel, plates, H.R., Pitts., cwt.	19.75	19.75	18.25
Steel, sheets, C.R., Detroit, cwt.	28.15	28.15	25.90
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.810	.810	.520
Antimony, N.Y., dealer, lb.	1.10	1.09	1.16
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.65
Brass, red, 85%, [sheet], lb.	1.84	1.64	1.27
Brass, yellow, [sheet], lb.	1.79	1.59	1.22
Cadmium, N.Y., dealer, lb.	3.00	3.05	0.98
Copper, electrolytic, wire bars, refd., lb.	1.20	1.00	.63
Copper sheet, over 24 in., lb.	1.93	1.73	1.36
Lead, common, N.Y., lb.	.420	.420	.275
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.53
Mercury, 20 fl. lots, N.Y., fl.	325.00	355.00	220.00
Molybdenum, oxide, dealer, lb.	2.80	2.79	3.10
Nickel, cathode, dealer, lb.	3.03	2.71	1.70
Platinum, dealer, oz.	510.00	495.00	477.00
Silver, N.Y., oz.	6.92	6.63	5.36
Tin, N.Y., dealer, lb.	3.18	3.23	3.06
Zinc, Prime West, East St. Louis, lb.	.45	.42	.44
Zinc, die casting alloy, No. 3, lb.	.505	.475	.525
PAPER			
Uncoated book #3 offset, ton	890.00	870.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	17.14	17.17	16.32
Grocery sacks, ton	410.00	410.00	390.00
Solid bleached paperboard, ton	650.00	650.00	550.00
Kraft linerboard, 42 lb., unbleached, ton	380.00	380.00	320.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.274	.271	.227
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.24	1.24	1.06
Cotton middling, 1", N.Y., lb.	.596	.609	.500
Printcloth, 48", 80x80, N.Y., spot, yd.	0.92	0.95	0.90
Army duck, 27", 13 oz., yd.	1.51	1.51	1.40
Blended printcloth, 64", 78x54, yd.	.80	.93	.80
20s combed yarns	1.74	1.98	1.74
Wool 64s, Staple, lb.	3.00	3.00	1.90

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	75.00	75.00	80.00
Benzene, petroleum, tanks, Houston, gal.	0.89	0.90	0.98
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.78	.78	.91
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.36	.36	.28
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.32	.32	.27
Polyethylene resin, low density liner film grade (market place), lb.	.385	.385	.295
Polypropylene, homopolymer grade (market price), lb.	.470	.470	.325
Polystyrene, general purpose grade (market price), lb.	.535	.520	.360
Polyvinyl chloride, pipe grade (market price), lb.	.380	.375	.285
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.40	.40	.23
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	127.50	127.50	152.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.80	.80	.77
Xylene tanks, gal.	.780	.780	.765
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl.	333.75	332.60	327.75
Lumber 2x2 pine, mbf, cl.	326.35	330.65	316.20
Plywood, plyform, ¾", msf, cl.	568.05	575.50	592.35
Plywood, ⅜", msf, cl.	394.90	391.45	392.40
Cement, bulk, ton, tl.	63.73	63.73	63.28
Sand, ton, cl.	7.12	7.12	6.62
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	48.83	48.88	48.27
Crushed stone, 1½", ton, cl.	8.31	8.31	7.83
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl.	0.91	0.90	0.84
Gypsum sheathing, ½"x1"x8", msf, tl.	225.54	226.69	213.07
Brick, common, per thousand, tl.	200.91	198.26	186.51
Asphalt paving, AC-20	140.30	140.30	127.08
Concrete sewer pipe, 12", prem. joint, per foot, cl.	7.54	7.52	7.36
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	11.50	14.75	11.50
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	19.50	19.75	17.00
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	.540	.560	.375
Gasoline, 94 oct., reg., Chi., tank car, gal.	.495	.540	.428
Heating oil, No. 2, Chi., bulk, gal.	.550	.585	.430
Heating oil, No. 2, N.Y., bulk, gal.	.563	.568	.438
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	.528	.553	.433
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	.260	.260	.240
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	106.00	114.00	79.00
Steel, No. 1 hvy., dlvd., Chi., ton	105.00	115.00	72.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	1.015	.890	.550
Copper, No. 2, East, wholesale buy, dlvd., lb.	.925	.800	.465
Brass, red, East, wholesale buy, dlvd., lb.	.975	.850	.510
Brass, yellow, East, wholesale buy, dlvd., lb.	.405	.365	.330
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.510	.500	.315
Alum., mixed clip, E., wholesale buy, dlvd., lb.	.585	.565	.335
Zinc, old, East, wholesale buy, dlvd., lb.	.20	.20	.20
Lead, clean solids, East, wholesale buy, dlvd., lb.	.265	.265	.165
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	25.00	35.00	24.00
Paper, old corrug. box, dlr., N.Y., ton	15.00	20.00	20.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	120	120	.090
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	.23	.23	.10

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

imports and toward domestic sellers—a shift sparked by the decline in the U.S. dollar. Then, too, U.S. exports are beginning to move higher for the same reason.

In any event, some really impressive component demand gains are projected—especially in the semiconductor area. Digital and linear ICs, for example, are expected to be up 19% and 18%, respectively, this year. And even the normally slower-growing "discrete" sector is targeted for an 11% gain.

Nor will gains in passive components be anything to be ashamed of—as overall dollar sales here move up 13% in 1988. But increases in general will be smaller than in semiconductors—except for interconnect components (connectors and printed circuit boards). Also worth noting: Buying of capacitors will remain brisk.

Anavy, in summing up, notes "1988 should be the best year for both equipment and components since 1984—with military buying being the only really notable exception."

Econometric models showing industry outpacing gross national product

The big econometric forecasting models, shrugging off the impact of the recent stock market crash, continue to signal another tolerably good year for 1988.

True, real gross national product (as suggested by averaging estimates supplied to *PurchasingWorld* by Wharton, DRI, and Merrill Lynch—see accompanying table) comes out at only 2.1% for 1988. But that's not bad considering that would make 1988 the sixth straight year of economic expansion.

And even the following year is expected to remain in the plus column. Preliminary projections, for example, indicate an average GNP advance of about 1.8%.

These computer-based numbers also confirm what *PW's* new economic consultant, Dr. Roger Williams of St. John's University, is saying—namely that industrial production will fare better than GNP. Specifically, factory output gains for 1988 and 1989 are expected to average out at 3.2% and 2.2%, respectively.

To be sure, there is some variation among the three models. But the fact that all are positive about GNP and industrial production over the next two years should refute the few purveyors of doom and gloom who still profess to see a recession just around the corner.

The three price indexes forecasted by these same econometric models are also on the encouraging side. They point to only modest price acceleration. The 1988 estimates suggest a manageable situation—with increases varying anywhere from 3% to 4.5% depending on the model and the specific index being projected.

What the big econometric models predict.

Real GNP (% change)	1988	1989
DRI	2.6	2.2
Wharton	2.2	2.2
Merrill Lynch	1.5	1.1
AVERAGE	2.1	1.8
Industrial production (% change)		
DRI	3.8	2.4
Wharton	3.0	2.3
Merrill Lynch	2.7	2.0
AVERAGE	3.2	2.2
GNP price deflator (% change)		
DRI	3.5	4.1
Wharton	3.4	3.9
Merrill Lynch	3.9	5.3
AVERAGE	3.6	4.4
Finished producer prices (% change)		
DRI	4.2	4.5
Wharton	3.1	3.2
Merrill Lynch	3.8	5.9
AVERAGE	3.7	4.5
Consumer prices (% change)		
DRI	4.6	4.8
Wharton	4.2	4.8
Merrill Lynch	4.5	5.6
AVERAGE	4.4	5.1
Prime interest rate (%)		
DRI	8.6	8.0
Wharton	9.2	10.7
Merrill Lynch	8.3	8.6
AVERAGE	8.7	9.1
Unemployment rate (%)		
DRI	5.9	5.8
Wharton	6.1	6.2
Merrill Lynch	6.3	6.6
AVERAGE	6.1	6.2

These new estimates, incidentally, are actually at or below those made a year ago. At that time the three indexes were expected to show 1988 advances ranging as high as 5%. In short, despite all recent talk, the price outlook has not really deteriorated.

On the other hand, there has been some downgrading of earlier GNP and industrial estimates for the upcoming year. A year ago, the 1988 gains were expected to be 3.1% for GNP and 3.7% for industrial production. Now they are 2.1% and 3.2%, respectively.

A spokesman for one of the econometric forecasting firms explains that the lack of any significant escalation in prices can be traced to two factors: 1) less pressure on materials and supplies than previously anticipated; and, 2) smaller-than-expected wage gains.

As for toning down the 1988 growth estimates, he says that the stock market slide undoubtedly played a role. But he adds that there are other factors operating here, too—namely mandated government spending cutbacks and extremely cautious business buying both in the capital goods and inventory spheres.

Still another possible influence on overall growth trends could be the refusal of the Fed to really ease up on the monetary brakes. Indeed, the prime rate as projected by these models is expected to edge up over the next two years.

Cautious optimism is expressed by NAPM Business Survey group

Cautious optimism is the order of the day among the 250 or so members of the NAPM Business Survey Committee.

While the prestigious group does see some pickup in the overall inflation rate, the vast majority of respondents feel that they will be able to live with the increases. And while they aren't ruling out the negative impact of the stock market fall, they feel that gains in capital spending and exports will continue to keep the economy in the plus column.

Some of the survey's more specific findings:

■ **Prices:** While most purchasing managers (76%) are bracing for higher prices over the next six months, they feel that the increases will be selective (86%) and moderate or slight (97%) rather than across-the-board or severe.

Looking further ahead, an impressive 89% expect to be paying an average 3.7% more for their goods by the end of 1988. Only 4% expect lower prices and these lucky few put their average decline at near 2.9%. When added to the 7% who see no change, the overall boost in prices for 1988 is put at 3.6%—only slightly higher than the 3.2% figure experienced in 1987.

Commenting on this relatively modest acceleration, Robert J. Bretz, head of the survey committee and director of materials management at Pitney Bowes, says that his group believes that suppliers will go slow on posting further hikes for these reasons: 1) most of the vendor price catch-up from previously depressed years has been accomplished; 2) concern about holding onto newly won market shares; and, 3) still-substantial competition from some overseas suppliers.

■ **Capacity and capital spending:** Some half of the respondents say they are now operating at 90% or better of their potential. This is up from 30% a year ago, and is the highest since May 1979. Conversely, the 2% reporting rates under 50% is the lowest since that same year.

Not surprising, capital spending is expected to head higher. Indeed, some 42% of surveyed PMs expect gains—nearly double the 22% who anticipate declines.

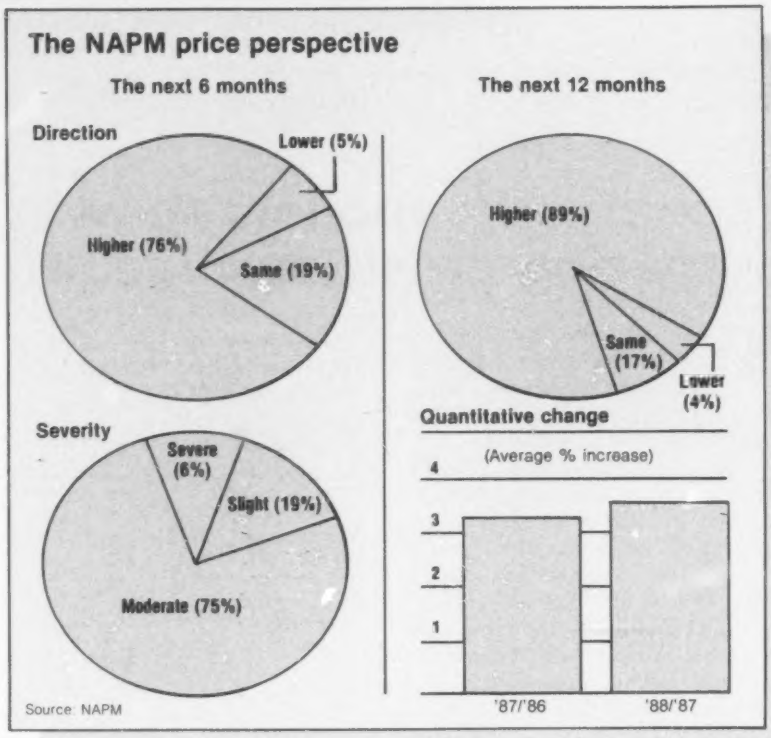
■ **Export/imports:** Some 58% of firms who export expect to increase the volume of their outgoing shipments in the next six months. That's up significantly from the 50% who experienced an increase over the past two months.

Imports, on the other hand, are likely to remain relatively unchanged. Reasons: locked in contracts and no viable alternate sources of supply, plus the fact that overseas producers continue to absorb much of the price impact occasioned by the weakened dollar.

■ **Overall demand:** The figures are surprisingly cheery here. Thus, 52% see first half 1988 topping the second half of 1987. That compares to another 37% who see no change and 11% who anticipate some decline. The second half is expected to be almost as good: 33% expecting further improvement; 48% voting for the status quo; and only 19% looking for some deterioration.

An answer to another question put to the committee suggests that very few are really worried or pessimistic about the overall outlook. Indeed, the 1% who fall into this category is the smallest such reading since 1972. On the other hand, the majority still admit to some concern—with much of that due to the recent happenings on Wall Street.

NAPM's Bretz sums it all up: "PMs are extremely optimistic that the strong economic growth experienced in 1987 will continue in 1988. While they are concerned about the stock market impact on the economy, their optimism is fueled by significant increases in export business. They also expect more price increases—but such increases will be moderate, especially when considering the high level of imports and the continuing decline in the value of the dollar."



Most commodities to rise, some will fall

It looks like an interesting year or two on the industrial price front. While averages won't be rising much (the overall industrial producer price index is projected to advance only 4.9% and 4.5% in 1988 and 1989, respectively), individual product lines could show wide variations—with a few areas like nonferrous metals experiencing scattered declines.

That's what Data Resources, Inc. (DRI) is telling its clients these days—with individual sectors expected to shape up something along these lines:

■ **Energy:** Only small advances are anticipated here. Thus after posting an average quarterly escalation rate of 4.3% in 1987, aggregate producer price index for fuels and related products and power registers additional gains averaging out at only 1.4% per quarter in 1988 and 1.5% in 1989.

■ **Steel:** The near-term forecast for mill product prices projects annual increases of 5.3% and 4.8% for 1988 and 1989, respectively. Individual product price increases, however, are expected to vary from this average, depending on changes in product markets. For example steel plate, which is currently tight, experienced increases of 8.7% this past year—with gains of 6.9% and 3.0%, projected for 1988 and 1989, respectively.

■ **Nonferrous metals:** The tight supply situation in domestic markets is expected to give way to improving availability as new and reopened facilities are brought on stream. But this will coincide with some slowdown in demand.

Upshot: After averaging a strong 5.0% quarterly rate of increase this past year, the producer price index for primary, nonprecious nonferrous metals declines at a 2.6% quarterly rate in 1988. But these prices should stabilize in 1989 as demand improves—with the average quarterly rate of escalation that year put at 0.8%.

DRI also provides some interesting dollars-and-cents forecasts here. By late 1989, for example, the U.S. free-market price for primary aluminum drops to near 66¢ per pound —down more than 25¢ per pound *vis a vis* recent $1 per pound-plus levels.

■ **Industrial chemicals:** With crude feedstock prices stabilizing somewhat over the next four quarters, escalation in industrial chemicals is expected to slow—from a strong average quarterly pace of 2.3% in 1987 to just 0.6% in 1988. Though crude oil tags begin to move up in 1989, most of the movement occurs late in the year, so industrial chemicals still post only small gains (0.4% per quarter).

■ **Construction materials:** Stronger cost pressures will force producers to raise prices between 4% and 5% for many materials in 1988. Improved demand conditions, combined with more rapid wage escalation in 1989, form the foundation for material price increases in the order of 5% for most products.

For example, valve prices which rose by about 1.2% this past year, will advance 4.6% and 5.2% in 1988 and 1989, respectively. Prices of concrete products which experienced only fractional advances in 1987, should spot sizable increases in 1988 and 1989 (4.0% and 4.5% respectively).

■ **Machinery and equipment:** The aggregate producer price index for this category, after increasing only 1.5% in 1987, accelerates—with gains of 3.7% and 4.2% seen for 1988 and 1989, respectively. Reasons: Rising foreign tags endangered by the weak dollar, increasing exports, and a somewhat improved domestic capital equipment buying outlook.

■ **Electronic components:** DRI projects production of office computers to increase 11.4% in 1988 and another impressive 7.3% in 1989. Production of communication equipment, another large end-market for electronic components, is expected to rise 9.3% in 1988 and 6.1% in 1989. As a result of this strong demand, increases in the producer price index for electronics are projected to accelerate from the small 0.8% rise of 1987 to 4.0% in 1988 and 5.7% in 1989.

PW readers forecast still rosy

PW readers, shrugging off the recent stock market tumble, remain moderately optimistic about the new year.

To be sure, price increases are expected to be a bit more numerous in the quarters immediately ahead. And availability should remain a problem in a few scattered areas.

But things for the most part seem manageable. More significant, few see any business downturn. Indeed, the vast majority of those queried anticipate respectable demand gains for their companies.

As one PM puts it, "it won't be quite the 'piece of cake' it's been in recent years. But supply and demand should be in reasonable balance—and most of our prices should still be negotiable."

A more detailed rundown on what this wide cross section of industrial purchasing managers expects over the next 12 months follows:

■ **Prices:** The average increase in materials and services purchased is estimated to be somewhere in the 5-6% range. That compares to a year ago when replies to a similar survey question suggested only about a 3.5% boost for the then-upcoming 1987.

This increase in the inflation rate is further confirmed by the fact that an impressive 93% of all respondents now expect 1988 increases to top those of the year just ended. Significantly, not one single purchasing manager now says he's budgeting for lower procurement costs.

Moreover, many feel this modest acceleration will continue into the second half of 1988. Thus one out of two see July-December price boosts topping those of the first six months of the year. In contrast, only 14% expect smaller increases at that time—with another 36% anticipating a basically unchanged pace.

■ **Real demand:** One reason for the projected price hikes could be PMs current appraisal of 1988 business. More than four out of every five, for example, expect their firm's activity to top that of 1987. Even more impressive, some 43% expect the increase to be in the 5%-or-higher range—a figure well above that posted by most business forecasters.

Further evidence of business optimism comes from the fact that PMs are betting on continuing GNP advances into late 1988. Indeed, second half advances are now expected to top first half ones—as only 18% see the possibility of a July-December deceleration.

■ **Inventories:** The "keep 'em lean" strategy will continue to prevail. Thus those anticipating some stock paring still outnumber those contemplating additions—despite the good business being projected. It suggests that days' supply will remain at or even under recent levels—with a big assist here coming from the just-in-time stacking approach.

■ **Delivery performance:** Increasing demand plus somewhat higher operating rates have prompted half of those queried to look for further modest leadtime stretchouts. In contrast, only 4% feel some narrowing is possible—with the remaining 46% expecting a basically unchanged situation.

The lengthening leads are also raising concern about possible supply problems. Some of the product lines where difficulties are anticipated: steel, paper, plastic resins such as polyethylene, polypropylene, and polystyrene, selected chemicals, bearings, integrated circuits, and a few brass mill products.

Other concerns being voiced by purchasing executives include possible inability of their firms to pass through added costs, labor problems, deteriorating transportation (damage and delays), and poor vendor quality.

But despite all the above, the vast majority of PMs queried are confident they can cope. The strategies most often mentioned in this connection: 1) more reliance on just-in-time deliveries; 2) continuing emphasis on long-term contracts with extended price guarantees where possible; 3) narrowing of the supply base for more bargaining clout; 4) closer liason with vendors; and 5) tightening of quality demands.

A few also plan on a little expeditious buying of raw materials which are expected to remain quite volatile. As one buyer puts it, "there'll be ups and downs in these markets—and by timing our purchases right we are confident that we can trim our overall procurement costs by a significant amount".

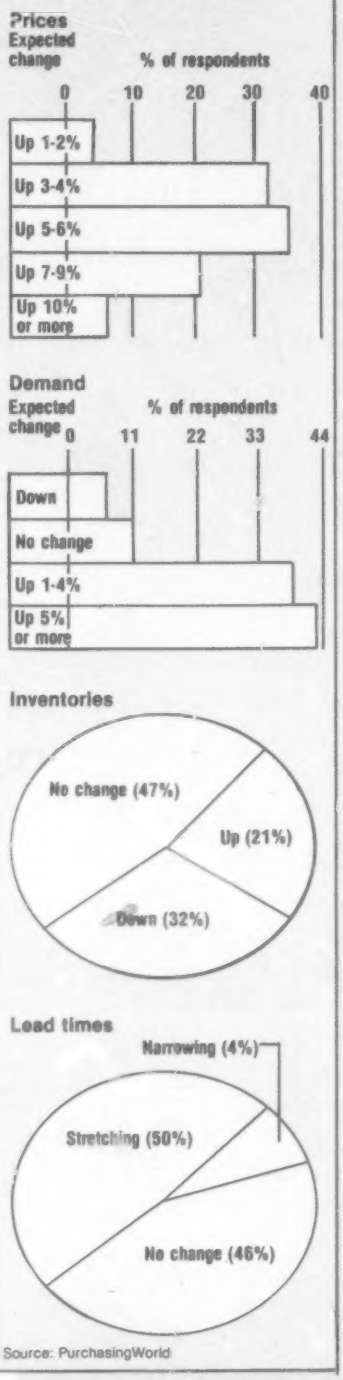
But overall thinking can probably best be summed up by one Midwestern PM who observes, "it won't be easy. But I fail to see any pervasive bottlenecks. And as far as prices are concerned, increases may be a percent or so more than last year. But that's a heck of a lot better than the double-digit rates of a few years back." **PW**

Key product prices into early 1990

(Comparison of first quarter pricing)

Product	Percent change 89/88	90/89
Raw materials, energy		
Supplies for manufacturing	4.3	4.3
Processed fuels & lubricants	6.1	5.7
Residual fuels	5.9	9.6
Industrial chemicals	1.3	2.9
Metals		
Steelmill products	4.6	4.9
HR carbon strip	4.9	5.4
Stainless plate	3.7	3.7
Copper cathode	– 2.1	– 1.5
Secondary nonferrous	– 4.3	0.8
Lead	– 14.1	1.4
Aluminum shapes	0.5	4.6
Components		
Rubber & plastic products	3.2	3.3
Pulp & paper	2.3	2.0
Foundry & forge shop products	5.2	4.3
Electronic components	5.6	6.0
Construction products		
Prepared paint	2.7	3.3
Plastic construction products	0.4	3.3
Plumbing fixtures	4.9	3.1
Fabricated structural metals	3.2	4.0
Insulation materials	4.0	5.7
Machinery		
Metalworking machinery	4.6	4.5

Forecast '88: What PW readers see ahead



Source: PurchasingWorld